

Assembly Bill Number 1247

June 22, 2011

The Honorable Nathan Fletcher

Re: AB#1247 Request to Remove California Actuarial Advisory Panel

Dear Assembly Member Fletcher:

The California Actuarial Advisory Panel (CAAP) requests that it be removed from Assembly Bill No. 1247 (AB 1247). As most recently written, the bill would require the Chair of the California Actuarial Advisory Panel to receive an annual report from CalPERS and present that report within 30 days to the Senate Committee on Public Employment and Retirement and the Assembly Committee on Public Employees, Retirement and Social Security. The Chair would be required to provide an explanation of the role played by the investment return assumption and amortization period in the calculation of the contribution rates, the consequences for future state budgets and discuss various other related issues.

This bill was thoroughly discussed at both our May 27, 2011 and June 22, 2011 CAAP meetings. There was broad consensus that the CAAP should be removed from the bill. There also was a broad consensus around four reasons that warrant the removal of the CAAP from AB 1247 and place the duties with a different entity: (1) The bill does not give the CAAP volunteer members enough time to complete the required assignment, (2) The amount of work required far exceed the resources available to the CAAP, (3) The required assignment is beyond the scope of the CAAP's duties and most importantly, (4) The work requested raises troubling professional issues.

1. Time: CAAP meets no more frequently than monthly in order to complete its current projects, but is only required to meet once every quarter. The meeting schedule does not allow CAAP enough time to complete tasks within a thirty day time period. .
2. Resources: The members of the CAAP serve on a volunteer basis, and all have either full-time jobs or other duties. The CAAP does not have any resources to assist with its duties and must complete current work assignments by itself with the members only. Any assignment of this nature would require far more time and resources than the CAAP has available. The staffs of the State Controller's Office that are assigned to the CAAP assist with administrative functions only and do not assist with actuarial assignments.
3. Scope: The scope of the CAAP's duties includes developing rules around how actuaries disclose actuarial results, the funding of pension plans, and general pension issues. Reviewing, analyzing, and commenting on a specific actuarial plan(s) is outside the scope and tenor of the types of assignment that the members volunteered to complete. The CAAP does not believe that this type of assignment

should be a part of the CAAP's work as it detracts from the other duties specified in the CAAP's authorizing legislation.

4. Professional issues: The duties described constitute the provision of actuarial services under the actuarial Code of Professional Conduct. This raises troubling professional issues including peer review, quality control, and professional liability exposure. For these reasons these services should be provided by an actuary retained for that purpose.

The CAAP also reached unanimous agreement that the assignment given to the CAAP in AB 1247 would be best handled by the actuary producing the required report. However we understand this might not be acceptable to the Legislature. The best alternative to the actuary producing the required report would be to require that an auditing or reviewing actuary be retained. Accordingly, we recommend the Chair of the CAAP be replaced with an independent reviewing actuary hired by the retirement system's Board.

The CAAP discussed AB 1247 at both its May 27, 2011 and June 22, 2011 meetings. At these meetings, no formal position could be taken on the bill because the item had not been noticed as action item on the agenda. At its June 22, 2011 meeting, the CAAP developed this draft statement for adoption at a later meeting. Representatives of the CAAP would welcome a meeting with your staff to further discuss its involvement in the bill.

Thank you for your consideration in this matter.

Sincerely,

Paul Angelo, FSA, FCA, MAAA, EA
Vice-Chairman
California Actuarial Advisory Panel